

SAPPHIRETERRA CAPITAL

Sapphireterra Capital Proposes Value-Up Plan for Goldcrest Co., Ltd.

Sapphireterra Capital (“Sapphireterra”) is an investment firm based in Chicago, U.S., specializing in engagement investing in Japanese equities. Sapphireterra has been investing in Goldcrest Co. Ltd. (“Goldcrest,” TSE Code: 8871) since 2024.

Our View of Current Situation

Sapphireterra observes that Goldcrest’s share price does not fully reflect the company’s intrinsic value. Its PBR remains around 0.8x, below the theoretical liquidation value of 1.0x. We estimate Goldcrest’s intrinsic value to be at least its NAV per share, which we estimate to be approximately ¥5,500. The value would represent roughly +70% upside from the current share price while implying a PBR of 1.3x.

While Goldcrest exhibits exceptional profitability relative to other real estate developers in Japan, we observe its share prices have not received fair valuation in the stock market. We believe this is due to the company’s overly conservative financial leverage and weak ROE, which has historically stayed below its cost of capital.

We analyze that Goldcrest’s business model is characterized by maintaining ample liquidity to secure attractive land opportunities over the long term and developing high-quality condominium properties with rich profit margins. We believe this unique business model is not fully appreciated by the stock market.

To ensure Goldcrest is properly valued and its corporate value rises to its intrinsic level, we propose that the company pursue value creation as a public company. Specifically, we reiterate the following three proposals previously communicated to management.

Proposal 1: Optimize Financial Leverage and Improve Capital Efficiency (ROE)

Sapphireterra believes Goldcrest can improve its ROE above the cost of capital by optimizing its financial leverage. Specifically, the company should increase the D/E ratio, which is approximately 0.6x currently, to approximately 1.1x over the medium term (roughly three years) through additional borrowing, thereby expanding total assets and scaling revenue and profit.

If Goldcrest raises its D/E ratio to around 1.1x, we estimate it could achieve net income of roughly ¥10 billion (currently ¥5 billion) and ROE of around 8% (currently 4%).

A D/E ratio of 1.1x remains conservative compared with major real estate developers, many of which operate with ratios in the range of 1.4x to 2x. We believe Goldcrest can maintain its agile land acquisition model even with this level of leverage.

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If Goldcrest expands its asset base and improves ROE to around 8%, we believe the market will revalue the company in line with major real estate developers (PBR of 1.3x or higher), implying a share price of ¥5,500 or higher.

Proposal 2: Announce a Strong Shareholder Return Policy and Introduce RS Compensation

Goldcrest has historically increased dividends and conducted share buybacks. However, Sapphireterra believes the company should present a more impactful shareholder return policy. Specifically, Goldcrest should adopt a DOE (dividend on equity) target of 4% and raise its dividend per share from the current ¥100 to ¥160.

Because $DOE = ROE \times \text{payout ratio}$, setting DOE of 4% as a capital allocation policy signals a clear management commitment to improving ROE to 8% over the medium term while returning half of earnings to shareholders (50% payout ratio). We believe this policy would send a strong message to the market.

Furthermore, we believe Goldcrest should utilize treasury shares to introduce restricted stock (RS) compensation for its executives and employees. Aligning their incentives with shareholder interests would reinforce the credibility of the company's strategy to improve capital efficiency and strengthen shareholder returns.

Proposal 3: Appoint a CFO and Form a Dedicated IR Team

To implement these initiatives, Sapphireterra proposes strengthening Goldcrest's internal teams. The company should appoint a Chief Financial Officer (CFO) to support management on financial strategy, including leverage optimization, financing, investment analysis, and shareholder returns.

Goldcrest should also form a dedicated Investor Relations (IR) team. Currently, IR responsibilities at the firm are handled on a part-time basis, and we believe this limits the company's ability to effectively communicate its business model and long-term vision to investors. As practiced by other public companies, Goldcrest should prepare IR materials and a medium-term business plan, and proactively conduct one-on-one IR meetings.

Strengthening two-way communication with investors, ensuring they understand Goldcrest's vision and growth plan while incorporating market feedback into management strategy, is essential for enhancing corporate value.

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Summary of Sapphireterra's Proposals

- Optimize financial leverage and improve capital efficiency (ROE)
- Announce a strong shareholder return policy and introduce RS compensation
- Appoint a CFO and form a dedicated IR team

(End)

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